

Message Text

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ACTION FRB-02

INFO OCT-01 EUR-25 EA-11 ISO-00 SP-03 AID-20 EB-11 NSC-07

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CIAE-00 COME-00 INR-10 NSAE-00 XMB-07 OPIC-12 LAB-06

SIL-01 PA-04 PRS-01 USIA-15 FEA-02 INT-08 SCI-06

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FM AMEMBASSY BERN

TO SECSTATE WASHDC 9025

INFO AMEMBASSY BONN

AMEMBASSY LONDON

AMEMBASSY PARIS

AMEMBASSY ROME

AMEMBASSY TOKYO

USMISSION EC BRUSSELS

USMISSION OECD PARIS UNN

C O N F I D E N T I A L SECTION 1 OF 2 BERN 1860

DEPT ALSO PASS FEDERAL RESERVE AND TREASURY

E.O. 11652: GDS

TAGS: EFIN, SZ

SUBJECT: BERN VISIT OF FEDERAL RESERVE CHAIRMAN BURNS

1. SUMMARY. IN WIDE-RANGING, OPEN, AND FRANK MEETING
AND DURING LUNCHEON CONVERSATION MAY 14, FEDERAL
RESERVE CHAIRMAN BURNS DISCUSSED FOLLOWING TOPICS WITH
SWISS FEDERAL COUNCILOR (MINISTER) CHEVALLAZ; SWISS
NATIONAL BANK (SNB) PRESIDENT LEUTWILER; AMBASSADOR
JOLLES, DIRECTOR, DIVISION OF COMMERCE; AND OTHER SEN-
IOR SWISS OFFICIALS: IMPLICATION OF OIL PRICE
INCREASES ON WORLD ECONOMIC SYSTEM; CURRENT STATE OF
FOREIGN EXCHANGE MARKETS; ITALIAN SITUATION; AND FUTURE
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OF IMF AND OTHER INSTITUTIONS IN INTERNATIONAL MONETARY

SYSTEM, INCLUDING ROLE FOR SWITZERLAND. SOME OF SAME SUBJECTS DISCUSSED WITH LEADING SWISS BANKERS AT STAG DINNER GIVEN BY AMBASSADOR. FOLLOWING ARE HIGHLIGHTS OF CONVERSATIONS. END SUMMARY.

2. ENERGY AND RELATED MATTERS. IN RESPONSE TO CHAIRMAN BURNS' COMMENTS ON THE CONTINUING URGENT NEED TO REDUCE OIL PRICES AND THE NEED FOR MEASURES TO CONSERVE ENERGY, SWISS OFFICIALS RETIERATED POSITION SUPPORTING THE BROADEST POSSIBLE CONSUMER COUNTRY COOPERATION. JOLLES SAID THE GOS PARTICULARLY APPRECIATES THE US WILLINGNESS SHARE OIL. HE SAID GOS HAS THUS FAR FIRMLY RESISTED ALL "TEMPTATIONS" ENTER INTO BILATERAL ARRANGEMENTS. JOLLES BRIEFLY NOTED SWISS REGRET AT BEING EXCLUDED FROM FEBRUARY WASHINGTON CONFERENCE AND FOLLOW-ON WORK IN ENERGY COORDINATING GROUP. HE AND LEUTWILER EXPRESSED SOME DOUBT AS TO WHETHER EUROPEAN COUNTRIES WERE NOW MORE FAVORABLY DISPOSED TO ENTER INTO MEANINGFUL COOPERATIVE PROGRAM ALTHOUGH THEY AGREED THAT RECENT AND PROSPECTIVE CHANGES IN GOVERNMENTS MAY IMPROVE AT LEAST ATMOSPHERICS.

3. RECYCLING. BOTH LEUTWILER AND HAY OF SNB EXPRESSED VIEW THAT NEITHER BANKERS NOR GOVERNMENTS VIEWED WITH SUFFICIENT REALISM AND PESSIMISM SITUATION RESULTING FROM INCREASED FINANCIAL RESOURCES AVAILABLE TO OIL PRODUCERS. LEUTWILER NOTED THAT EURO-DOLLAR MARKET HAD SO FAR EASILY ACCOMPLISHED TECHNICAL RECYCLING BUT WONDERED ABOUT OPTIMISM OF BANKERS FOR HANDLING SITUATION IN FUTURE. HE ALSO EXPRESSED CONCERN RE AMOUNT OF SHORT-TERM FUNDS PLACED IN EUROPEAN MARKETS BY OIL PRODUCERS AND OTHERS AND CURRENT PRACTICES OF LENDING SUCH FUNDS ON LONG-TERM BASIS. AT DINNER SWISS BANKERS CONFIRMED THAT UNTIL NOW OIL PRODUCERS HAVE BEEN ATTRACTED PRIMARILY ONLY BY SHORT-TERM, HIGH INTEREST DEPOSIT ARRANGEMENTS. BANKERS ALSO EXPRESSED SOME ANNOYANCE RE MAY 13 AP-DJ ARTICLE CARRIED "HERALD TRIBUNE" MAY 14 HEADLINED "SWISS BANKERS QUITTING EURO-DOLLAR MARKET." WHEN ASKED WHETHER THERE WAS ANY TRUTH TO ALLEGATIONS IN ARTICLE, SWISS BANKERS RESPONDED (WITH SOME HESITATION) IN NEGATIVE.

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4. FOREIGN EXCHANGE MARKET. LEUTWILER EXPRESSED CONCERN RE EXTREME EXCHANGE MARKET FLUCTUATIONS SINCE JANUARY AND THOUGHT THAT AT PRESENT DOLLAR CLEARLY UNDERVALUED. HE THOUGHT AMONG FACTORS INFLUENCING MARKET IN RECENT PAST HAS BEEN RELUCTANCE OF BANKS AND OTHERS TO HOLD DOLLARS BEYOND MINIMUM NEEDED FOR DAILY INVESTMENT AND TRADE WORKING BALANCES. FOREIGN EXCHANGE LOSSES SUFFERED BY

UNION BANK AND SWISS CREDIT BANK AS WELL AS SOME GERMAN BANKS
AND FRANKLIN NATIONAL HAVE CLEARLY CONTRIBUTED TO MARKET
UNEASINESS. SWISS OFFICIALS EXPRESSED APPRECIATION FOR
CHAIRMAN BURNS' EXPLANATION OF FRANKLIN SITUATION. AT
DINNER SWISS BANKERS PROBED RE FEDERAL RESERVE ATTITUDE
WITH RESPECT HYPOTHETICAL CASE OF FAILURE ABROAD OF SUB-
SIDIARY OF MAJOR US BANK.

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C O N F I D E N T I A L SECTION 2 OF 2 BERN 1860

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5. OTHER FACTORS CITED BY LEUTWILER WHICH HAVE STRENGTH-
ENED SWISS FRANC RECENTLY INCLUDE UNCERTAINTY RE US
POLITICAL SITUATION, CAPITAL INFLOWS FROM FRANCE RELATED
TO PRESIDENTIAL ELECTION, VERY RECENT CAPITAL INFLOW FROM
GERMANY, AND CONTINUING INFLUX FROM ITALY. LEUTWILER
SAID THAT MARKET REACTED BRIEFLY TO MARCH TRADE DEFICIT

AND OTHER RECENT US ECONOMIC NEWS BUT FOR MOST PART HAS BEEN INFLUENCED BY PSYCHOLOGICAL AND POLITICAL FACTORS.

6. ITALY. LEUTWILER EXPRESSED VIEW THAT ITALY WAS FORCED TAKE FIRM ACTION IN VIEW OF DETERIORATION IN ITS INTERNATIONAL CREDIT RATING AND THAT OTHER INDUSTRIAL COUNTRIES HAD NO ALTERNATIVE OTHER THAN ACCEPT WHAT GOV-
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ERNMENT AND BANK OF ITALY HAVE DONE. JOLLES EXPRESSED SOMEWHAT DIFFERENT VIEW AND PARTICULARLY ARGUED THAT ITALY SHOULD HAVE RESORTED TO PRIOR CONSULTATIONS WITH MAJOR TRADE PARTNERS. DURING LUNCHEON CONVERSATION LEUTWILER SAID THAT FINDING WAY FOR ITALY TO USE ITS GOLD RESERVES AS COLLATERAL OR UNDER SALE/REPURCHASE OPTION ARRANGEMENT WAS HIGHLY DESIRABLE. JOLLES NOTED THAT AT MAY 10 OECD EXECUTIVE COMMITTEE IN SPECIAL SESSION MEETING ITALIAN REP AT LAST MINUTE HAD ENTERED RESERVE WITH RESPECT PROPOSED CURRENT ACCOUNT STANDSTILL DECLARATION. HE THOUGHT DIFFICULT ITALIAN PROBLEM WAS HOPEFULLY ONLY REMAINING OBSTACLE TO ADOPTION OF STANDSTILL BY OECD MINISTERIAL MAY 29-30.

7. INTERNATIONAL MONETARY REFORM. IN RESPONSE QUESTION FROM CHAIRMAN BURNS, SWISS REVIEWED HISTORY OF NON-MEMBERSHIP IN IMF INCLUDING PAST PROBLEMS WITH SCARCE CURRENCY CLAUSE, DOUBTS RE SDRS, AND PROBLEMS WITH SWISS BANKS AND PARLIAMENT. OFFICIALS INDICATED POSSIBLE APPLICATION TO IMF IS UNDER SERIOUS CONSIDERATION AND THAT KEY ISSUE IS WHETHER SWITZERLAND CAN PLAY ROLE COMPARABLE TO ITS IMPORTANCE IN WORLD FINANCIAL AND MONETARY AFFAIRS. LEUTWILER MENTIONED POSSIBLE SWISS REPLACEMENT OF PRESENT EXECUTIVE DIRECTOR FROM BENELUX COUNTRY OF ADDITION OF NEW SEATS AND SAID THESE POSSIBILITIES ARE BEING EXPLORED. ANOTHER RELATED QUESTION WAS WHETHER NEW COUNCIL OF MINISTERS WOULD REALLY DETERMINE INTERNATIONAL MONETARY POLICY OR WHETHER THIS WOULD BE DONE BY SMALL GROUP OF FIVE COUNTRIES OR REFURBISHED GROUP OF TEN. IF EITHER FIVE OR TEN WERE TO TAKE MAJOR DECISION, WOULD SWITZERLAND BE IGNORED? CHEVALLAZ REVIEWED TRADITIONAL INDEPENDENT SWISS FOREIGN POLICY AND RELUCTANCE ASSUME POLITICAL OBLIGATIONS INTERNATIONALLY. JOLLES NOTED THAT SWITZERLAND HAS HAD VERY POSITIVE EXPERIENCE IN INTERNATIONAL ECONOMIC BODIES BUT THAT IMF MEMBERSHIP WOULD HAVE TO BE SOLD TO PARLIAMENT ON BASIS CLEAR NET ADVANTAGE. SWISS OFFICIALS EXPRESSED HOPE THAT USG WOULD TAKE AN INTEREST IN POSSIBLE SWISS IMF MEMBERSHIP AND PROVIDE APPROPRIATE SUPPORT. LEUTWILER SEEMED TO INDICATE THAT SNB WOULD NOW SUPPORT IMF MEMBERSHIP IF SWITZERLAND OBTAINED APPROPRIATE REPRESENTA-

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TION BUT NOTED THAT BASIC DECISION HAD TO BE TAKEN BY
FEDERAL COUNCIL.

8. DOMESTIC SWISS SITUATION. SEVERAL SWISS BANKERS
EXPRESSED DOUBT WHETHER CURRENT SWISS GOVERNMENT 7 AND 7-1/2
PERCENT BOND ISSUES WOULD BE FULLY SUBSCRIBED. CHEVALLAZ
AND OTHER OFFICIALS ALSO INDICATED SOME APPREHENSION
RE SUCCESS OF ISSUES WHICH WENT ON MARKET MAY 14 AND
NOTED THAT FAILURE WOULD HAVE SIGNIFICANT EFFECT ON
SWISS CAPITAL MARKET AS WELL AS ON GOVERNMENT FINANCES.

9. SWISS OFFICIALS AND BANKERS EXPRESSED CONSIDERABLE
INTEREST IN DESCRIPTION BY CHAIRMAN BURNS OF US EXPER-
IENCE WITH AND FORECASTS RE INFLATION AND NOTED THAT
US SUCCESS IN BRINGING PRICES UNDER CONTROL WAS EXTREMELY
IMPORTANT FOR EUROPE.
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